



# DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

## INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JUNE 2019

Auditor of Public Accounts  
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# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

September 9, 2019

Erik Johnston, Director  
Department of Housing and Community Development  
600 E Main Street, Suite 300  
Richmond, VA 23219

## INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on June 12, 2019, for the **Department of Housing and Community Development** (Housing). The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of Housing is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a new process for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, annually we will perform a risk analysis for all of the cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit and the other pool will be subject to review in a special project focused on one area of significance as well as a review of internal controls in the form of a questionnaire. Our intent is that all cycled agencies will complete an internal control questionnaire at least once every three years. This letter is to communicate the results of the Internal Control Questionnaire review.

### Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The “Review Procedures” section below details the procedures performed for Housing. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

### **Review Procedures**

Due to the implementation of the new statewide accounting system, we reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of Housing’s ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the agency’s process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources; revenues and expenses; capital assets; and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management’s risk assessment process.

As a result of these procedures, we noted areas that require management’s attention. These areas are detailed in the “Review Results” section below.

### **Review Results**

We noted the following areas requiring management’s attention resulting from our review:

- Housing maintains documented policies and procedures over most business areas. However, during the course of our review, we observed processes in place that were not adequately documented within the agency’s policies and procedures. Since Housing has recently centralized its fiscal and administrative processes, it is crucial that management ensure

adequate internal policies and procedures are implemented for all significant business processes. Further, management should review and approve all policies and procedures at least annually, and maintain documentation of the review and approval process.

- Housing needs to expand its transaction-level risk assessment, including tests of controls, to meet the requirements of Accounts' ARMICS standards.
- Housing does not track all amounts owed to the agency by other entities. This impacts the amount of receivables reported to Accounts for inclusion in the Commonwealth's Comprehensive Annual Financial Report (CAFR). While Housing reports federal receivables to Accounts, it does not track or report other types of revenues to determine if they should also be reported with the Attachment 21 submission. In particular, Housing does not track and report receivables related to the two percent levy fee collected from localities in accordance with the Code of Virginia § 36-137. Management should collaborate with Accounts to determine how to properly report these receivables for inclusion in the CAFR and document this process within its existing policies and procedures over financial reporting.
- Although a review of the Cancelled Records Report is being completed, Housing is not performing a reconciliation of creditable compensation between the Commonwealth's personnel management system and retirement benefits system prior to confirming the monthly contributions snapshot. Management should develop and implement procedures within their current reconciliation process to ensure compliance with requirements set forth in the Commonwealth Accounting Policies and Procedures Manual Topic 50410. In addition, management should ensure this process is adequately documented within internal policies and procedures.
- While Housing is performing annual reviews of systems access, this review is not adequately documented. Management should ensure Housing retains sufficient evidence of this review.

We discussed these matters with management on August 15, 2019. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Auditor of Public Accounts

JDE/clj



Ralph S. Northam  
Governor

R. Brian Ball  
Secretary of  
Commerce and Trade

## COMMONWEALTH of VIRGINIA

### DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Erik C. Johnston  
Director

September 13, 2019

Martha S. Mavredes  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

Dear Ms. Mavredes,

Thank you for the opportunity to respond to your most recent review of the Internal Control Questionnaire (ICQ) and results letter received on September 9, 2019, for the Department of Housing and Community Development (DHCD). DHCD recognizes the importance of internal controls and compliance with internal and Commonwealth policies and procedures, acknowledges the recommendations noted, and will address the findings identified in your review.

DHCD will complete the below actions over the next several months to ensure compliance:

#### Policies and Procedures

DHCD will conduct a review to ensure that policies and procedures are adequately documented and implemented for all significant business processes. As a part of this review, DHCD will maintain documentation that annual reviews and approvals of policies and procedures are performed.

#### Agency Risk Management and Internal Control Standards (ARMICS) – Transaction-Level Assessment

DHCD will review and update its ARMICS process to expand the transaction-level risk assessment.

#### Accounts Receivable – Levy Fee

DHCD tracks the levy fees, however acknowledges that improvement is needed to this process, to include reporting anticipated receivable amounts on Attachment 21. DHCD will review and update this process and discuss with the Department of Accounts (DOA), the best method for recording these specific accounts receivable amounts to ensure accurate reporting. This process will be documented with accompanying policies and procedures.



Virginia Department of Housing and Community Development | Partners for Better Communities  
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Reconciliation of Creditable Compensation


DHCD will review, update, and adequately document current procedures to include the monthly reconciliation between the personnel management system and retirement benefits system.

Evidence of Annual Systems Access Review

DHCD will document and retain sufficient evidence of the annual reviews conducted of systems access.

We appreciate you and your audit team for this review and especially for the recommendations and guidance given as a result. We thank you all for the time, attention, detail, and professionalism shown. Furthermore, we welcome the opportunity to identify and strengthen any areas of weaknesses and look forward to working with you both now and in the future.

Sincerely,



Erik C. Johnston, Director



Danielle M. Robertson, Chief Financial Officer



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